



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony of the Connecticut Insurance Department Before The Labor and Public Employees Committee

Thursday, March 8th, 2007

House Bill 6678 – An Act Increasing the Availability of Health Care for Connecticut Workers

Good morning, Senator Prague, Representative Ryan and members of the Labor Committee. My name is George Bradner, Director of the Property and Casualty Division of the Insurance Department. The Property and Casualty Division is responsible for reviewing workers' compensation rates. Sitting next to me is Tom Taggart. He is the examiner responsible for reviewing workers' compensation filings.

In response to your request to discuss the manner in which the Department approves workers' compensation rate increases, allow me to briefly explain our process. The Legislature explicitly authorized the Insurance Department to regulate two aspects of the workers' compensation insurance rate-setting process.

First, the Department regulates "loss costs" and assigned risk rates as proposed by National Council on Compensation Insurance (NCCI). The NCCI is an insurance rating and data collection bureau specializing in workers compensation insurance. NCCI annually collects loss data on workers' compensation claims. The NCCI uses this information to provide workers' compensation assigned risk insurance rates and loss cost recommendations to Insurance Departments across the country.

NCCI is required by Connecticut law to file its proposed advisory loss costs with the Department. NCCI usually files its loss costs with the Department in the fall. "Loss costs" are the costs incurred by the insurance companies to pay and administer claims. Loss costs include adjustments to account for the varying claims experiences individual companies encounter. For example, NCCI considers adjustments for the cost to adjust claims which is known as the loss adjustment expenses; the cost to resolve a claim, known as loss development; the trending of losses to account for increases or decreases in medical expenses; the funding of the Workers' Compensation Commission known as loss based assessments; and various benefit and law changes.

The Department prohibits the following factors to be used as justification for a change in the NCCI's loss costs: general and other acquisition expenses; commissions and brokerage expenses; taxes, licenses, and fees; premium based adjustments; profits; and investment income. These costs are more appropriately considered by the individual workers' compensation companies, which I will discuss in detail shortly.

When NCCI submits a loss costs and assigned risk rate filing that includes the information described above, it is reviewed by the Department's Examiner and Actuary to ensure the rate-making methods used are appropriate and that the filing meets approved actuarial standards as prescribed by the American Academy of Actuaries. In addition, the Department reviews all other items to determine if they are reasonable—that is, they cannot be excessive or inadequate nor unfairly discriminatory. After completing its internal review, the Department holds a public hearing in accordance with the Administrative Procedures Act on the loss cost and assigned risk rate filing. The Hearing Officer drafts a Memorandum of Findings and Recommendations. The Commissioner reviews the Memorandum of Findings and Recommendations and issues an Order on the filing.

The second part of this process occurs after the Department approves the NCCI loss cost filing and assigned risk loss rates. Insurance carriers authorized to write workers' compensation insurance in Connecticut are also required by law to file its rates with the Department. Companies are required to complete the Summary of Supporting Information Form (the form attached for your review). This form provides the Department with a summary of supporting information for the company's rate filing. It includes the company's most recent 3 years of workers' compensation premium and claim experience. It also includes selected expense provisions which consist of the following: Commission, Other Acquisition Expenses, General Expenses, Taxes, License & Fees, Profit & Contingencies and Other – this requires the company explain this expense provision. These company expense elements result in a "loss costs multiplier," which is a percentage that is multiplied by the approved NCCI loss costs to come to the rate that will be charged.

I hope this explanation provides some helpful background information to you. I would be happy to answer any questions that the Committee may have.